

A question of due diligence

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Vendor surveys can be a valuable resource ? provided they are properly conducted

Technical due diligence surveys commissioned by commercial property vendors have become increasingly popular in recent years for. In 2017 at [Tuffin Ferraby Taylor](#) , for example, such surveys accounted for 14 per cent of all our technical due diligence instructions, up from 8 per cent five years ago. Most of our institutional and property company clients choose to commission a vendor or divestment survey before putting a property on the market, and this can offer significant benefits.

A commercial agent recently remarked to me that the vendor technical due diligence process was ?useful for getting any ugliness out in the open before potential purchasers start to bid?. A purchaser?s team with any wisdom may well identify such issues later ? which will only delay the transaction, threaten the sale price, or even kill the deal.

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Once a purchaser has been chosen from a range of bidders, any leverage will be theirs if issues are discovered. Also, revisiting the second bidder does not put the vendor in the best position if a previously unforeseen technical issue has prevented a sale.

For the vendor survey process to succeed, it is important to ensure that the scope and extent of survey aligns with the asset in question. Getting this right comes with experience, but as a rule of thumb you should put yourself in the purchaser?s shoes and ask what you would expect to see.

Before the inspection

Before inspection, it is worth knowing what existing documentation is available; for example, and if relevant, see if there are reports about:

- asbestos;
- concrete; or
- drainage.

Many large, modern commercial offices have complex glazed curtain walls, so a specialist report from a facade engineer will usually be required to supplement the surveyor?s advice and give a fuller technical appraisal of the building.

Getting the scope right is also important. One benefit of the vendor survey is that it saves time, but this can be squandered without a proper scope: there is no sense in commissioning a vendor survey if an important technical component is missing.

Another benefit of commissioning vendor technical due diligence is that a vendor can select a technical team of their choice, so should know that the consultant has the necessary skill and competence to report without significant limitations.

Potential pitfalls

We are often asked to review vendor reports prepared by other firms. It is important to be aware of the potential pitfalls of a vendor survey so you can advise clients of any shortcomings. In my experience, much of the problem can be down to an inadequate scope or client brief, or a surveying firm not fully understanding the risk profile of the asset under consideration.

We were recently asked to review a vendor report that was little more than a schedule of photographs with captions for a building with a value of more than ?1bn. In this instance, a completely new technical due diligence survey was required, which delayed the transaction for all parties.

Another frequent omission from reports is repair costs. This approach again cancels any time-saving benefits offered by the vendor survey because the purchaser's team will need to inspect the property to assess such costs. Invariably, such a process takes nearly as much time as the original vendor survey itself.

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Be aware that some firms seem to offer contractual reliance on the report to the vendor only. This approach is illogical and confirmation that full reliance will be provided to the purchaser should be the first thing on the checklist when you are presented with a vendor survey for review. The level of professional indemnity insurance offered must also be checked for adequacy against the market norm.

Another common area of difference when reviewing someone else's work relates to costs for repairs. It is important to keep records of how these have been calculated so they can be compared with the reviewer's assessment. Very often, such differences can be attributed to each surveyor's varying point of view, and a sensible conversation is required to reach agreement.

It's easy to throw stones when reviewing work completed by others, but one should avoid doing so as this simply erodes everyone's perception of vendor surveying. The peer review process is also a good way to see how and what others are doing and learn from them. Regardless of your view, vendor surveys are advantageous when done properly. Building surveyors should embrace the process for the benefit of the profession and for the promotion of our expertise.

Chris Gibbons is a partner at [Tuffin Ferraby Taylor](#)

Further information

- The RICS draft guidance note *Technical due diligence of commercial property* (5th edition) [is currently up for consultation on iConsult](#) .
- Related competencies include: [Inspection](#) and [Landlord and tenant](#)
- This feature is taken from the [RICS Built environment journal](#) (February/March 2019)
- Related competencies include: [Due diligence](#) , [Surveys](#) , and [Vendor surveys](#)